Brooks Laboratories Limited
March 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	27.46 (enhanced from Rs. 8.00 crore)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	**Revised from CARE BBB ; Stable (Triple B ; Outlook: Stable)**
Short term Bank Facilities	2.50	CARE A3 (A Three)	**Revised from CARE A3+ (A Three Plus)**
Total	**29.96 (Rs. Twenty Nine crore and ninety six lakh only)**		

Details of instruments/facilities in Annexure-I

Detailed Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Brooks Laboratories Limited (BLL) takes into consideration decline in total operating income and profitability in FY17 (refers to the period April 01 to March 31) and net loss reported by the company during 9MFY18 due to delay in stabilization of newly commissioned capex.

The ratings continue to derive strength from experienced promoters/directors & established track record of company, comfortable capital structure, moderate debt coverage indicators and reputed clientele. The ratings further derive strength from healthy growth prospects of Indian Pharmaceutical Industry.

The ratings, however, are constrained by its moderate scale of operations, the company's exposure to regulatory risk, BLL's concentrated revenue stream and its presence in highly competitive industry.

Going forward, the ability of the company to scale up its operations with early stabilisation of newly commissioned capex and improvement in profitability and overall solvency position would remain the key rating sensitivities.

Outlook: Negative

The revenue stream of the company is expected to remain volatile on account of stabilization risk associated with the new project. The outlook may be revised to 'Stable' with better than expected operational and financial performance with execution of export as well as domestic orders. .

Detailed description of the key rating drivers

2*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*.

Experienced promoters/directors and established track record of entity

The entity got established in 2000 which has helped it in establishing strong business relationships with customers as-well-as suppliers. BLL is currently being managed by all the directors collectively. Mr Atul Ranchal, Mr Rajesh Mahajan, Mr Rajnish Kumar and Mr Deepak Mahajan have an industry experience of around two decades. Furthermore, Dr D.S. Maity and Ms. Sonia Gupta have an industry experience of two and a half decades and around one and a half decades respectively.

Comfortable capital structure and moderate debt coverage indicators

The capital structure of the company remained comfortable with overall gearing ratio of 0.11x as on March 31, 2017. The same deteriorated marginally owing to an increase in the debt levels of the company due to additional term loans taken by the company to undertake capex pertaining to setting up of a facility in Gujrat.

The interest coverage ratio stood moderate at 5.68x in FY17. The same deteriorated owing to a decrease in PBILDT in absolute terms coupled with an increase in interest expenses in FY17 owing to additional debt taken and higher utilization of working capital limits during the year. Additionally, the total debt to GCA deteriorated to 2.97x for FY17 owing to an increase in the debt levels of the company coupled with decreased GCA level for FY17.

Furthermore, the average operating cycle of the company stood moderate at 18 days for FY17. The average utilization of the working capital limits remained ~75% for the last 12 months period ended January 2018.

Reputed customer base; though concentrated revenue stream

The company is engaged in the manufacturing of pharmaceutical formulations and is supplying to various reputed players. However, the customer base is concentrated with top-5 customers contributing ~64% of the total sales in FY17. Any adverse change in procurement policies of these customers may affect the business of the company. However, the company has been getting repetitive orders from its clients which reflect its demonstrated ability to provide quality products.

Healthy growth prospects of the Indian Pharmaceutical Industry

The Indian Pharmaceutical Industry (IPI) is ranked third globally in terms of volume and thirteenth in terms of value. As per estimates, the industry size is expected to grow at a compound annual growth rate (CAGR) of 12.89% from USD 30 billion in 2015 to USD 55 billion by 2020 given the huge export potential coupled with steady growth in the domestic formulation market. Growth in the domestic pharma market is expected to be driven by increase in the penetration of health insurance, improving access to healthcare facilities, rising prevalence of chronic diseases and rising per capita income. The export growth is expected to be led by increasing generic penetration in the regulated markets on the back of enhanced focus on the niche and complex product segments, patent expiries and growing demand from semi-regulated pharma markets. (Source: CARE Ratings)

Weaknesses

Moderate scale of operations with decline in total operating income during FY17 and 9MFY18

Despite being in operations for around one and a half decades, the company's scale of operations has remained moderate marked by Total Operating Income (TOI) of Rs. 57.65 crore in FY17. The same decreased in FY17 owing to execution of limited number of orders post introduction of excise duty in June 2016.. The moderate scale limits the company's financial flexibility in times of stress and deprives it of scale benefits. In 9MFY18 (Provisional; refers to the period April 01 to December 31), the company has achieved TOI of Rs.42.51 crore as against Rs. 48.64 crore 9MFY17 due to execution of lesser number of contracts

Weak operating profitability margins with net loss during 9MFY18

The profitability margins of the company stood low with PBILDT and PAT margin of 9.94% and 3.39% in FY17 respectively. The PBILDT margin, declined in FY17 owing to an increase in employee expenses and due to decline in capacity utilization levels which resulted in increased cost due to high proportion of fixed cost owing to deprivation of scale benefits. Consequently and also due to increased interest and depreciation expenses, PAT margin also declined in FY17. Further, company registered losses at PBILDT level in 9MFY18 (PBILDT margin of -16.54%) and consequently, losses at cash level as well of Rs. 11.55 crore due to non-stabilization of operations in Unit II.

Exposure to regulatory risk

The pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Regular compliance with product and manufacturing quality standards of regulatory authorities is critical for selling products across various geographies. Furthermore, issues like price control of essential medicines by the Government of India through the Drug (Prices Control) Order, 2013, pose regulatory risk for the Pharmaceutical industry.

Presence in competitive and low value acute therapeutics which limits the growth

The competitive pressure in the domestic formulation market has been rising steadily. While on one hand, this has been prompted by significant increase in investments by domestic players in marketing efforts through expansion in field force, on the other hand, Multi-National Companies have also renewed their focus on India. Hence, increasing competition and government price control is expected to restrict margins. Furthermore, the company is present in low value therapeutics segment which limits the growth prospects

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

CARE's methodology for pharmaceutical sector

About the company

BLL was incorporated on January 23, 2002. Initially, the business operations were carried under a partnership firm named ''Brooks Pharmaceuticals (BP)"which was established in 2000 and was engaged in manufacturing of pharmaceutical formulations at a manufacturing facility at Mohali, Punjab. Consequently, BLL was incorporated in 2002 and the business operations of BP were taken over by BLL. The manufacturing facility was set up at Baddi, Himachal Pradesh in 2006 (manufacturing discontinued at Mohali, Punjab plant in 2006).

The company undertakes manufacturing of pharmaceutical formulations at its manufacturing facility located in Baddi, Himachal Pradesh having an installed capacity of injections of 5.18 crore units per annum, tablets of 9.79 crore units per annum, dry syrup of 2.02 crore units per annum, liquid ampoules of 3.74 crore units per annum, liquid vials of 2.30 crore units per annum and eye/ear drops of 2.30 crore units per annum. BLL also supplies to government organization through tenders in states like Gujarat, Jammu & Kashmir, Mumbai and West Bengal.

BLL's manufacturing plant is WHO-GMP certified by the World Health Organisation (WHO). The company is also ISO 9001:2008 certified. The labs of the company are also complying with the GLP (Good Laboratory Practices) norms as per the State Drugs Controlling Authority of Himachal Pradesh. In addition to the above certifications, BLL has also acquired the required approval from State Drugs Controlling Authority, Baddi.

The company has set up another manufacturing facility at Gujarat (Unit-II) with an installed capacity of manufacturing 5.00 crore units per annum of vials. The unit got operational from March 2017. Currently, Unit II is undertaking contract manufacturing for reputed pharmaceuticals companies.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	81.57	57.65
PBILDT	12.64	5.73
PAT	10.63	1.96
Overall gearing (times)	0.05	0.11
Interest coverage (times)	15.92	5.68

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	2.50	CARE A3
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB-; Negative
Fund-based - LT-Term Loan	-	-	December 2025	17.46	CARE BBB-; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-BG/LC	ST	2.50	CARE A3	-	1)CARE A3+ (10-Feb-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Negative	-	1)CARE BBB; Stable (10-Feb-17)	-	-
3.	Fund-based - LT-Term Loan	LT	17.46	CARE BBB-; Negative	-	-	-	-

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